

Message Text

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PAGE 01 STATE 041354

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TO AMEMBASSY BUDAPEST

C O N F I D E N T I A L STATE 041354

E.O. 11652: N/A

TAGS: ETRD, BEXP, HU

SUBJ: BUSINESS REPRESENTATION IN HUNGARY

REF : BUDAPEST 0349

1. DOW INITIATIVE IN HUNGARY APPEARS TO US SIMILAR TO APPROACH WHICH DOW MADE TO POLISH GOVERNMENT LAST YEAR WITH ASSISTANCE EMBASSY WARSAW. THIS EVENTUALLY RESULTED IN DOW OPENING ITS OWN OFFICE IN WARSAW. IN POLISH CASE, DOW CHEMICAL EUROPE SA MADE APPLICATION PRIOR TO FORMAL ARRANGEMENTS ON REPRESENTATION WHICH WERE WORKED OUT IN U.S.-POLISH JOINT COMMISSION. WE RECALL THAT IN SPRING OF LAST YEAR WHILE NEGOTIATIONS WERE UNDER WAY WITH POLES, ALEX CROSSAN OF DOW VISITED BUDAPEST TO EXPLORE POSSIBILITIES OF ESTABLISHING AN INDEPENDENT OFFICE. THE ANSWER WHICH CROSSAN TOOK AWAY FROM BUDAPEST AT THAT POINT WAS THAT IT WAS NOT POSSIBLE FOR A WESTERN FIRM TO HAVE ITS OWN OFFICE FORMALLY IN BUDAPEST, BUT THAT THERE WERE WAYS OF GETTING OFFICE WITH QUASI-INDEPENDENT STATUS.
CONFIDENTIAL

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PAGE 02 STATE 041354

EXAMPLES CPS, ICL, IBN, CORNING WERE CITED.

2. SOMEWHAT THEREAFTER FIRST NATIONAL CITY BANK ON ITS OWN INITIATIVE QUERIED HUNGARIAN NATIONAL BANK ABOUT THE POSSIBILITY OF OPENING AN OFFICE IN BUDAPEST. THE AMERICAN BANK WAS TOLD THAT THERE WAS NOTHING IN PRINCIPLE TO PREVENT THE ESTABLISHMENT OF AN OFFICE, BUT THAT THIS WOULD HAVE TO AWAIT THE RESOLUTION OF OUTSTANDING ECONOMIC QUESTIONS (I.E. MFN AND A TRADE AGREEMENT). DURING HIS VISIT TO WASHINGTON IN SEPTEMBER OF LAST YEAR NATIONAL BANK PRESIDENT LASZLO CONFIRMED THIS POSITION TO SECRETARY DENT. TO OUR KNOWLEDGE THE APPROACHES OF DOW AND FIRST NATIONAL CITY ARE THE ONLY SERIOUS ONES WHICH HAVE BEEN MADE IN THE LAST YEAR.

3. WHILE IT MAY BE TRUE THAT INITIALLY SMALL NUMBER OF U.S. FIRMS WILL WISH TO OPEN THEIR OWN OFFICES IN BUDAPEST, WE NEVERTHELESS PLACE HIGH PRIORITY ON RESOLVING ISSUE OF INDEPENDENT REPRESENTATION (BUSINESS FACILITATION) IN HUNGARY AND ELSEWHERE IN THE WORLD. WE SEEK TO ELIMINATE THOSE PROBLEMS WHICH POST OBSTACLES TO THE FREE FLOW OF TRADE. FOR THIS REASON, DURING HIS VISIT TO BUDAPEST SECRETARY DENT STRESSED THE IMPORTANCE OF BUSINESS FACILITATION TO HIS HUNGARIAN HOSTS, ESPECIALLY TO FOREIGN TRADE MINISTER BIRO. AGAIN IN HIS ANSWER TO BIRO'S SUBSEQUENT MEMORANDUM TO HIM ON THE SUBJECT, SECRETARY DENT REITERATED USG POSITION.

4. KEY QUESTION NOW IS WHETHER GOH HAS DECIDED IN PRINCIPLE TO ABANDON ITS OFFICIAL PROHIBITION AGAINST THE ESTABLISHMENT OF WESTERN SALES OFFICES IN HUNGARY. LAST WORD WE HAVE SEEN ON SUBJECT IS BIRO MEMORANDUM TRANSMITTED TO COMMERCE LAST NOVEMBER. WHILE THIS APPEARED TO REPRESENT A STEP FORWARD IN ALLOWING OFFICES TO BE ESTABLISHED WITHIN AGENCY COMPANIES AND PROVIDING THAT FOREIGN BUSINESSMEN COULD OBTAIN SIX-MONTH RENEWABLE VISAS, PROHIBITION AGAINST INDEPENDENT FOREIGN OFFICES APPEARS TO REMAIN IN FORCE.

5. IF DOW OR EMBASSY HAVE MORE RECENT EVIDENCE THAT GOH INDEED CONTEMPLATES REVERSING ITS POSITION ON REPRESENTATION, WE WOULD OF COURSE WELCOME IT. WE WOULD POINT OUT THAT AS FAR AS WE KNOW, THERE HAS BEEN NO HUNGARIAN REACTION TO THE SECRETARY'S LETTER TO BIRO WHICH WAS FORWARDED TO THE EMBASSY
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 041354

FOR DELIVERY IN DECEMBER, AND THAT WE ARE THEREFORE, NOT IN A POSITION TO JUDGE WHERE GOH NOW STANDS ON THIS QUESTION.

6. WHILE EMBASSY ULTIMATE JUDGE ON DEGREE OF SUPPORT TO GIVE DOW, WE BELIEVE DOW SHOULD BE URGED TO MAKE ITS APPLICATION TO GOH. OUR IMPRESSION IS THAT HUNGARIANS WILL CONSIDER DOW AN AMERICAN COMPANY EVEN THOUGH APPLICATION MADE BY SWISS SUBSIDIARY. LINKAGE TO MFN IS INEVITABLE, AND IN FACT WE HAVE

TOLD GOH THAT THIS ISSUE SHOULD BE RESOLVED IN CONNECTION WITH
EXTENSION OF MFN. NEVERTHELESS, DOW APPROACH MAY AT LEAST
RESULT IN CLARIFICATION OF THE ISSUE WHICH WOULD BE BENEFICIAL
TO DOW AND TO USG. CASEY

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